

**CITY OF YPSILANTI,  
MICHIGAN**

**SINGLE AUDIT**

**For the Year Ended June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF YPSILANTI, MICHIGAN  
SINGLE AUDIT**

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**YEAR ENDED JUNE 30, 2008**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

December 19, 2008

Honorable Mayor and Members  
of the City Council  
City of Ypsilanti, Michigan

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ypsilanti, Michigan* (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated [TBD]. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of finding and questioned costs as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-2 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Ypsilanti's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ypsilanti's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the City, in a separate letter dated December 19, 2008.

This report is intended solely for the information and use of City Council, management, others within the organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

December 19, 2008

Honorable Mayor and Members  
of the City Council  
City of Ypsilanti, Michigan

**Compliance**

We have audited the compliance of the *City of Ypsilanti, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-3 and 2008-4.

### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Ypsilanti's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ypsilanti's responses and, accordingly, we express no opinion on them.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City Council, management, others within the organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

**CITY OF YPSILANTI, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Grant/ Agreement/ Account Number</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed through Michigan Department of Natural Resources - DTE Energy Foundation Tree Planting Grant	10.664	07-30	\$ 3,000
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607	OMB# 1121-0235	1,869
FY 07 Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0563	24,970
Passed-through the Michigan Department of Community Health:			
LAWNET Conspiracy Continuation Project:			
2007/2008	16.579	7234-1-08-B	35,720
2006/2007	16.579	70771-9-07-B	4,843
<b>Total U.S. Department of Justice</b>			<u>67,402</u>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
Direct Programs:			
Homeland Security Assistance to Firefighters Program	97.044	EMW-2006-FG-11169	607,500
Assistance to Firefighters Grant	97.044	EMW-2007-FO-06440	36,113
<b>Total U.S. Department of Homeland Security</b>			<u>643,613</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Passed-through the Michigan Economic Development Corporation - Community Development Block Grants - Value of loans outstanding - Prior Year Expenditures	14.228	MSC 201017-EDIG	<u>2,750,350</u>
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
Passed through Michigan Department of Environmental Quality:			
Clean Water Capitalization Grants for Drinking Water:			
State Revolving Funds	66.468	7215-01	174,925
State Revolving Funds	66.468	7248-01	32,418
<b>Total U.S. Environmental Protection Agency</b>			<u>207,343</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,671,708</u>

See accompanying notes to this schedule.

# CITY OF YPSILANTI, MICHIGAN

## Notes to Schedule of Expenditures of Federal Awards

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### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Ypsilanti, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Ypsilanti reporting entity is defined in Note 1 of the City's basic financial statements.

### 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the City's basic financial statements.

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**CITY OF YPSILANTI, MICHIGAN**

**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2008**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified  
not considered to be material weaknesses?  X  yes   none reported

Noncompliance material to financial statements  
noted?   yes  X  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?   yes  X  no

Significant deficiency(ies) identified  
not considered to be material weaknesses?   yes  X  none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?  X  yes   no

**CITY OF YPSILANTI, MICHIGAN**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended June 30, 2008**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
97.044	Homeland Security Assistance to Firefighters

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  X  yes   no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Significant Deficiency**

**Finding 2008-1 Preparation of Financial Statements in Accordance with GAAP**

**Criteria.** The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

**Condition.** As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the City's internal controls.

**Cause.** Management has made the decision that it is in its best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

# CITY OF YPSILANTI, MICHIGAN

## Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

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**Effect.** As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible Officials.** The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### Material Weakness

#### **Finding 2008-2 Audit Adjustments**

**Criteria.** The City is responsible for the reconciliation of all general ledger accounts, including government-wide accounts, to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the government-wide financial statements are derived.

**Condition.** Significant GASB 34 adjustments were necessary in compensated absences to help adjust for a spreadsheet error along with a prior period adjustment for the incorrectly recorded joint venture equity interest in the Ypsilanti Community Utilities Authority.

**Cause.** Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year.

**Effect.** As a result of this condition, the City's government-wide financial statements were initially misstated by amounts material to those full-accrual basis financial statements and required adjustment in connection with the audit.

**View of Responsible Officials.** Management has implemented procedures to ensure that all adjustments (including government-wide adjustments) are created, reviewed and verified by a responsible official.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2008-3 Suspension and Debarment (CFDA# 97.044)**

**Criteria.** The City is responsible for ensuring that all federal awards program contractors, with contracts over \$25,000, are not suspended or debarred from receiving federal funds.

# CITY OF YPSILANTI, MICHIGAN

## Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2008

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**Condition.** The City did not verify that a contractor (from which a \$40,000 compressor was purchased under the Homeland Security Assistance to Firefighters Program grant) had not been suspended or debarred.

**Cause.** The City was not aware that all federal awards program contractors needed to be verified for suspension and debarment.

**Effect.** As a result of this condition, the City had not verified that the contractor was not suspended or debarred.

**View of Responsible Officials.** Management has implemented procedures to ensure that all contractors in the future are checked against the suspended and debarred federal website.

### Finding 2008-4 Federally Purchased Asset Inventory

**Criteria.** OMB Circular A-110, provides that “equipment records shall be maintained; a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records; an appropriate control system shall be used to safeguard equipment; and equipment shall be adequately maintained.”

**Condition.** The City has not completed a physical inventory of assets acquired with federal funds within the past two years.

**Cause.** The City was not aware that a physical inventory must be taken every two years.

**Effect.** As a result of this condition, the City was not able to ensure that all federally purchased assets were properly safeguarded.

**View of Responsible Officials.** Management has implemented procedures to ensure that a physical inventory is completed every two years.

## SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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